

# City Council Budget Workshop

## April 24, 2018



Proposed Annual Budget for  
July 1, 2018 – June 30, 2019

## Springfield, Missouri

### Proposed Annual Budget FY 2018-2019



# Budget Workshop Schedule

The annual budget is a plan – a financial proposal that directs the provision of public services and facilities. The services provided by the City of Springfield are based on the available revenues (funds) from all sources as approved in its annual budget.



1. Overview April 24
2. Revenue & Pre-commitments May 1
3. Proposed Funding Priorities May 11
4. Proposed Funding Priorities Continued May 15
5. City Council First Reading May 21

# Budget Workshop #1

## April 24, 2018

Budget Workshop #1 provides a high-level overview of the City's annual budget development process, including the City Manager's budget recommendations for the total balanced budget and a closer look at the proposed priorities for the General Fund proposed budget.



## Today's Agenda

1. City of Springfield Budget Definition and Process
2. Financial Policies Created to Guide Sound Financial Management
3. Guidelines for Budget Development
4. City Manager's Analysis & Budget Recommendations
5. Factors Affecting the City's Current Financial Condition and Prognosis for the Future
6. Fiscal Year 2018 and 2019 Revenue Highlights & Projections
7. Fiscal Year 2018 and 2019 Appropriations Highlights & Recommendations

“

*The city manager, at least sixty days prior to the beginning of each budget year . . . shall submit to the council a budget with an explanatory message.*

**Springfield City Charter Section 5.8**

“

*In no event shall the total amount of the proposed expenditures exceed the estimated income of the city.”*

Springfield City Charter Section 5.8

# Budget Process

In accordance with Section 5.8 of the City Charter, the City's budget process is led by the City Manager, who is required to present a proposed budget to City Council annually by May 1. A series of City Council budget workshops allow City Council to publicly discuss and balance the budget before a new fiscal year begins annually on July 1.



Section 5.8 also states, in summary: The budget shall provide a complete financial plan for the budget year. It shall include the following:

- An itemized statement of estimated revenues, including comparison to prior years.
- An itemized statement of proposed expenditures recommended by the city manager for each office, department or agency
- A statement of the amount required for the payment of interest, amortization and redemption charges on the debt for the city
- Provision for contingent expense in the amount not to exceed five percent of the total operating expenditures proposed
- A general budget summary
- Other information as the city manager may deem essential or required by ordinance or law

# Budget Timeline

The City's budget process includes collaboration between City departments/operating units and a budget team that consists of the three City Managers, the City Finance Director and members of the Finance department.



- 1. Finance Distributes Budget Prep Worksheets to Departments** (Dec.1, 2017)
- 2. Department Budget Requests Due to Finance** (Jan.29, 2018)
- 3. City Manager's Office Meets with All Departments** (February 2018)
- 4. Finance Department Creates Revenue, Debt Service and Salary Projections** (February 2018)
- 5. City Manager's Office & Finance Review Estimated Revenue & Projected Expenses** (March 2018)
- 6. Proposed Priorities from City Manager** (April 2, 2018)
- 7. Proposed Budget to City Council** (April 27, 2018)

# Budget Definition

The annual budget is a plan – a financial proposal that directs the provision of public services and facilities. The services provided by the City are based on the available revenues (funds) from all sources as approved in our annual budget.



## Notes:

- In 2017, the City of Springfield's Finance Department received the Government Finance Officers Association (GFOA) Distinguished Budget Award for its budget presentation for a 10th consecutive year.
- Throughout the budget workshop process (May 1 – June 30), the public has access to both the proposed budget and the later adopted budget online at [Springfieldmo.gov/Budget](http://Springfieldmo.gov/Budget) and at [Springfieldmo.gov/OpenData](http://Springfieldmo.gov/OpenData) (our data portal).
- On both of these web pages, there are links to full line item detail reports in addition to helpful summaries.
- Printed copies of the proposed budget are available at a cost of \$45.44 (the cost of printing).



# Financial Policies

The following general principles have been followed in the financial management of the City and in the development of the annual budget.

These policies have been developed to guide the City in delivering a consistent level of service, while maintaining a stable financial position and equitable tax structure.

- **Financial Planning Policies** *(including operating with a balanced budget)*
- **Revenue Policies** *(such as fees for services paid for by those receiving the services to recover the cost of providing such services)*
- **Expenditure Policies** *(such as providing the best service possible given revenue constraints and maintaining adequate cash reserves)*

*\* Details on these policies are included in the proposed budget*



# Financial Guidelines

The following general guidelines have been followed in the financial management of the City and in the development of the annual budget.

These allow the City to deliver a consistent level of service, while maintaining a stable financial position and equitable tax structure.

- Seek the best level of service at the least cost
- Maintain fund balance (reserve) at a level of 20% of operating funds budget
- Provide employees with competitive pay and benefits relative to the market and region
- Use one-time funds for one-time expenses; use ongoing funds for ongoing expenses
- Continue to look for new sources of revenue to improve the balance in the revenue composition via less reliance on sales tax due to its volatility
- Maximize cost recovery through fees for municipal services, consistent with City Council direction

## The proposed budget focuses on:

- **Employee Recruitment and Retention**
- **Public Safety**
- **Economic Vitality**
- **Fiscal Sustainability**

## City Manager Analysis & Budget Recommendations

The proposed budget focuses on employee recruitment & retention, public safety, economic vitality and fiscal sustainability, while funding the needs within all areas of the organization and remaining a balanced budget.

### How we have done over the past year:

- Ended Fiscal Year 2017 on budget
- Current Fiscal Year revenue is on budget
- Maintained Moody's Aa1 Bond Rating  
(second highest possible)
- Total debt load is light
- Continued to maintain 20% operating reserves in General Fund
- Level Property Tax renewed
- Continue to live within our means

# City Manager Analysis & Budget Recommendations

The proposed budget focuses on employee recruitment & retention, public safety, economic vitality and fiscal sustainability, while funding the needs within all areas of the organization and remaining a balanced budget.

## The following challenges impacted the creation of FY19 proposed budget:

- A 2.0% anticipated increase in sales/use tax and a 2.5% anticipated increase in payments in lieu of taxes (PILOTs) FY18 budget to FY19 budget.
- Gross receipts predicted to be down 7% from FY18 budget.
- The remaining revenue is basically flat.
- The big three revenue items account for approximately 84% of the total revenue in the General Fund
- The City continues to have more needs than what revenue will allow to be funded.
- While the Level Property Tax provides much-needed funding for our Lifecycle Capital Replacement Plan and additional public safety staffing, it does not alleviate much General Fund pressure.

# Factors Affecting the City's Financial Condition

City Population: 167,319  
SGF Metro: 458,930  
Population Growth Rate: .35%



## 1.Economic Climate

## 2.City of Springfield's Fiscal Health & Management

# Factors Affecting the City's Financial Condition

## 1.

### Economic Climate

## 1. Economic Climate:

### Diversified Economy:

- Springfield's diversified economy provides positive outcomes for middle and working class residents
- Lower housing prices could lure skilled workers, immigrants, seniors and millennials from the coasts.
- American dream is fading along the coast for many, but not here.
- Places like Springfield are where the middle class really has a future.

\* Joel Kotkin, "America's uber-geographer"

# Factors Affecting the City's Financial Condition

## 1.

### Economic Climate

## 1. Economic Climate:

### Job Growth:

- Job growth for SGF from 2010-2017 was very good – 17.7%, well ahead of the country – more than 2 times the national average. Another really good sign of a balanced economy.
- In 2017, there were 1,019 new jobs with \$36.1 million in new payroll.
- Science, technology, engineering and mathematics - STEM job growth is higher than the national average (10.3%).

\* Joel Kotkin, “America’s uber-geographer”



# Factors Affecting the City's Financial Condition

## 1.

### Economic Climate

## 1. Economic Climate: Business Growth:

- \$73.8 million in new capital investment in 2017 alone.
- Major capital investments in the manufacturing landscape: Kraft Heinz, 3M and the addition of Vital Farms (11-acre tract in PIC west with a promise for 50 employees initially, with plans to add 50 more).
- The new 205,000-square-foot dry building brings the Springfield Underground's total leasable space up to 2.5M sq. ft. and provides much needed speculative space for our region to market to prospects.

## Factors Affecting the City's Financial Condition

# 2.

## City's Fiscal Health & Management

## 2. City's Fiscal Health & Management

### Voter Confidence:

In the last two renewal cycles of the ¼-cent capital improvements and 1/8-cent transportation sales taxes, voters approved the renewals with more than **80% voting yes**

In 2017, voters renewed the Level Property Tax with **75% voting yes.**

# Factors Affecting the City's Financial Condition

## 2. City's Fiscal Health & Management



### 2017 State, Regional & National Departmental Awards



Factors Affecting  
the City's  
Financial  
Condition

2.

City's Fiscal  
Health &  
Management

## Broad Fiscal Indicators

Bond Rating

Adequacy of Reserves

Debt Load

Revenues that keep pace with inflation

Funded Lifecycle Replacement Plan

## Factors Affecting the City's Financial Condition

# 2.

## City's Fiscal Health & Management

# Broad Fiscal Indicators

## Bond Rating

- Moody's Investors Service has reaffirmed a rating of Aa1 to the City's outstanding general obligation bonds. (Second highest possible rating)
- Municipal issuers with an Aa1 rating demonstrate very strong creditworthiness relative to other U.S. municipal or tax-exempt issuers.
- Having a higher bond rating gives the City the opportunity to borrow funds, if needed, at a lower interest rate.

## Factors Affecting the City's Financial Condition

# 2.

## City's Fiscal Health & Management

# Broad Fiscal Indicators

## Adequacy of Reserves

- The fund balance of the General Fund (which contains the City's "rainy day" fund) remains within the Council-established reserve goal of 20% of the operating revenue

## Factors Affecting the City's Financial Condition

# 2.

## City's Fiscal Health & Management

# Broad Fiscal Indicators

## Debt Load

The Missouri Constitution limits the amount of general obligation and special assessment debt a municipality may issue up to 30% of the assessed value of property. The City is not in danger of exceeding the legal debt margin.

The current debt load is less than 1% of the state allowed maximum. Moody's acknowledges the City as having a "light debt burden."

## Factors Affecting the City's Financial Condition

# 2.

## City's Fiscal Health & Management

# Broad Fiscal Indicators

## Revenue Stability

- We have budgeted for sales/use tax to slightly (2.0%) increase next year budget to budget.
- Sales tax is a volatile revenue source and retail is experiencing a paradigm shift like we have never seen.
- Nationwide, in 2017, more than 300 retailers filed for bankruptcy.
- Nationwide, more than 6,700 retail stores closed, beating the previous high in 2008.



## Factors Affecting the City's Financial Condition

# 2.

## City's Fiscal Health & Management

# Broad Fiscal Indicators

## Revenue Stability

- Unlike a business or even some component units of the City such as City Utilities, non-enterprise revenues cannot be controlled through price or rate increases.
- Combined with the fact that the General Fund's main source of revenue is sales tax, the instability of this revenue source continues to be a concern.

## Factors Affecting the City's Financial Condition

# 2.

## City's Fiscal Health & Management

# Broad Fiscal Indicators

## Lifecycle Replacement Plan

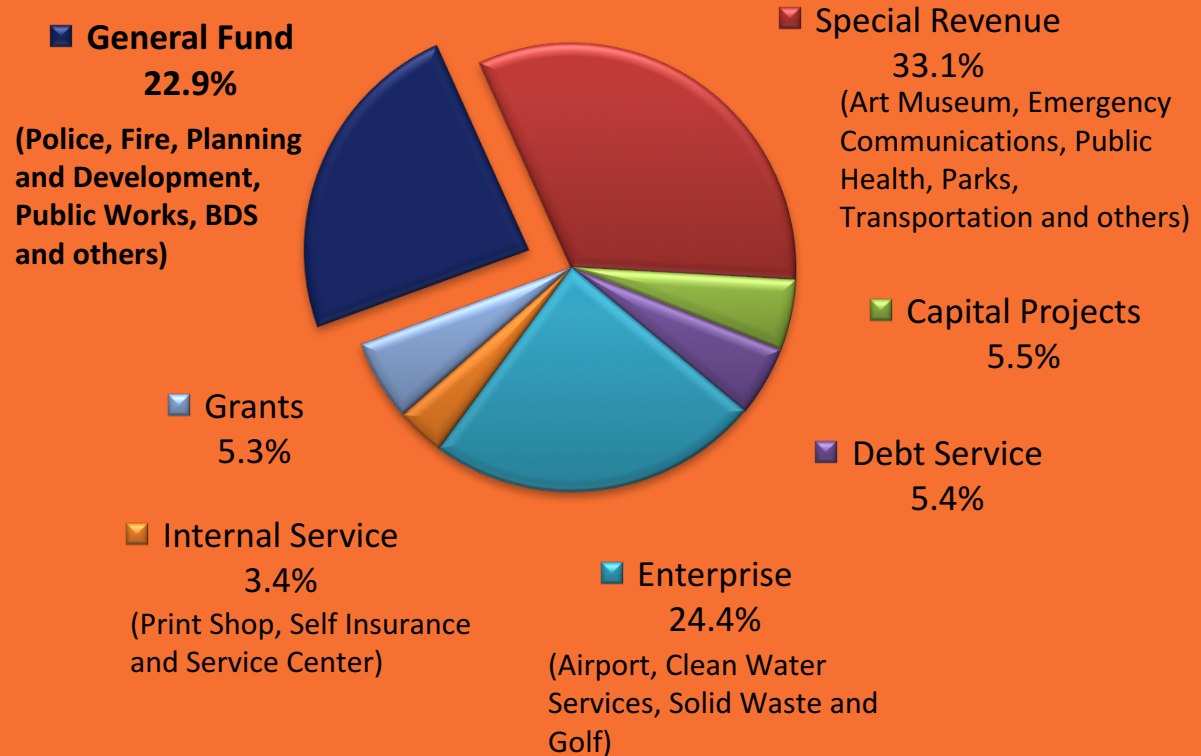
- The passage of the Level Property Tax renewal has positively impacted our ability to address some items in our Lifecycle Replacement Plan.
- We continue, however, to have unfunded ongoing capital needs, although the renewal of the LPT and its increased flexibility will allow us to address some pressing needs.
- This is particularly a struggle for departments funded by the General Fund, including police and fire, and so this additional funding source is helpful.

# The City's Revenue Sources

The City's operations are classified into fund groups for budget purposes.

These fund groups are classified as general, special revenue, grant, capital projects, debt service, enterprise and internal service.

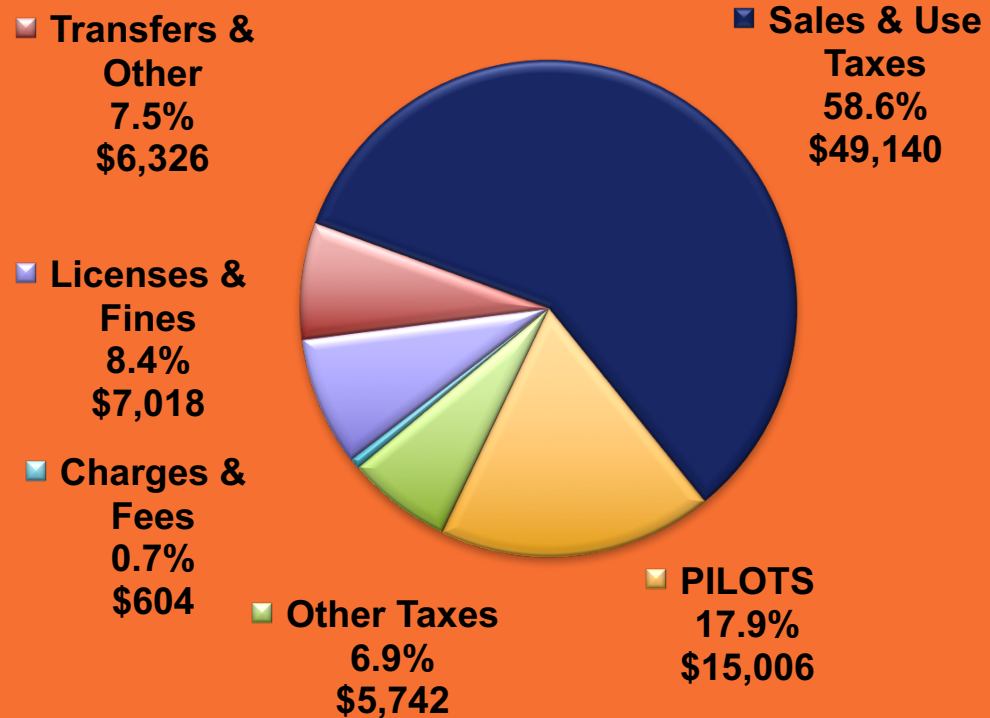
## FY19 OPERATING BUDGET GENERAL FUND'S RELATIONSHIP TO TOTAL BUDGET



## The City's Revenue Sources

The General Fund has four major revenues sources: sales/use tax, payments in lieu of taxes (PILOTs), licenses and permit fees and fines and penalties.

## FY19 GENERAL FUND PROJECTED REVENUE \$83 million



\*All amounts represented in thousands

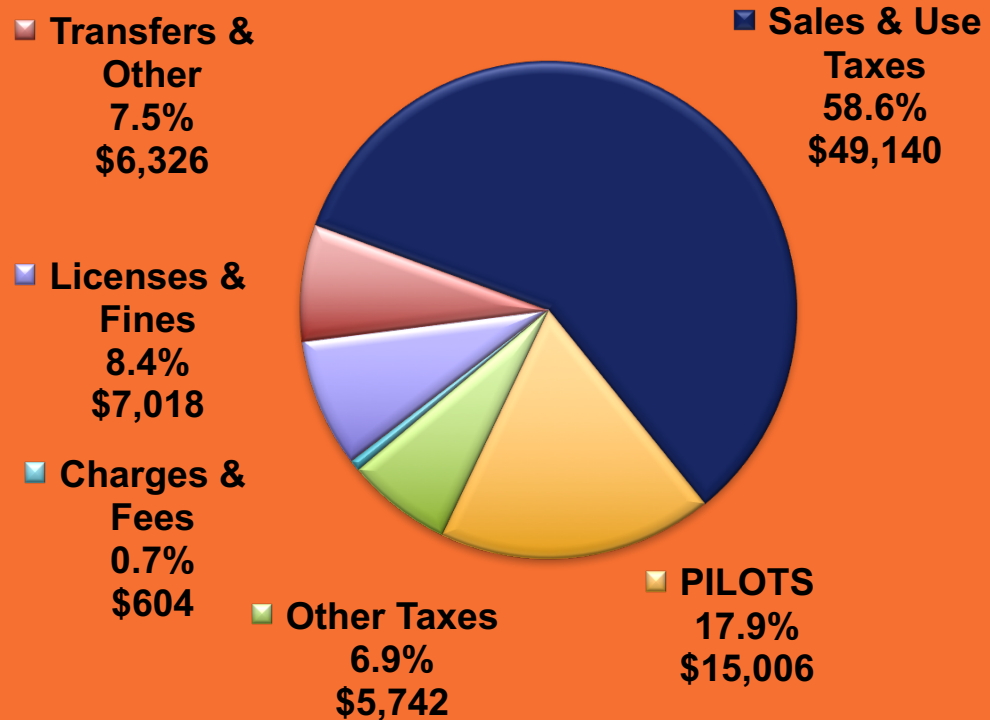
## The City's Revenue Sources

FY19 budget projects a 2.0% increase in sales/use tax over FY 18 budget.

PILOT revenue is expected to only increase 2.5% over FY18 budget.

Revenue from gross receipts are projected to decline 7% compared to FY18 budget.

## FY19 General Projected Revenue \$83 million



\*All amounts represented in thousands

# FY 19 Revenue Highlights & Projections

The largest share of General Fund operating revenues (58%) comes from sales and use tax, both of which are unpredictable and not keeping pace with operational demands.

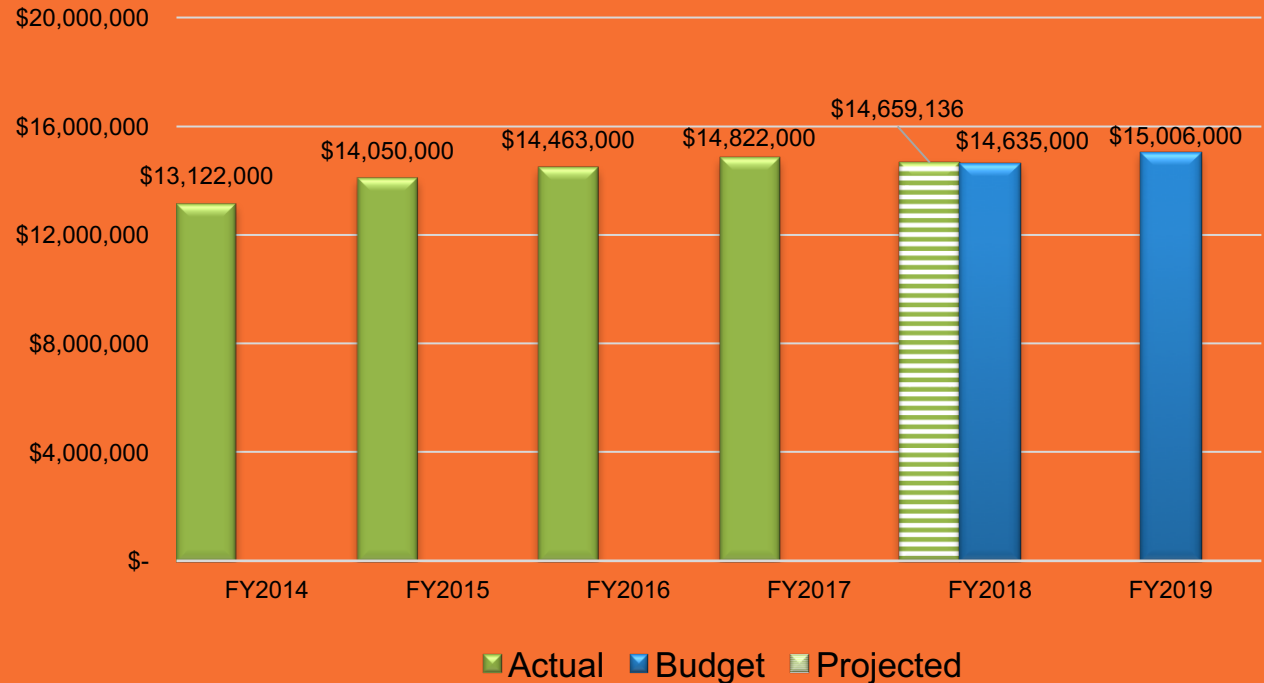
The projected total increase in General Fund Revenue for FY19 is 1.3%.

Current year-to-date sales tax revenues on budget. We continue to monitor receipts and adjust expenses.

There are unknown negative impacts on the City's revenue streams as a result of possible decisions of the Missouri legislature.

## FY 18 Revenue Highlights & Projections

# City Utilities PILOT



# Revenue Outlook

The City needs a new funding model that broadens the funding tools available, reduces dependency on sales tax and does not raise taxes.

## Impact of Level Property Tax

- LPT to absorb costs of seven firefighters (SAFER Grant)
- Funding a significant portion of the Lifecycle Replacement Plan (*Police, Fire, Public Works, IS Equipment and Vehicles*)
- Allows us to begin the Comprehensive Plan
- Allows additional public safety staffing:
  - 10 Police Officers & 1 non-sworn police employee
  - 7 Firefighters
- Jail Payment
- Economic Vitality Pool



## FY 19 Revenue Highlights & Projections

A proposed \$84 million General Fund budget is based on a small projected total revenue growth of 1.3%

**The FY19 Proposed Budget is pieced together using FY17 carryover. Carryover may not be available in future years.**

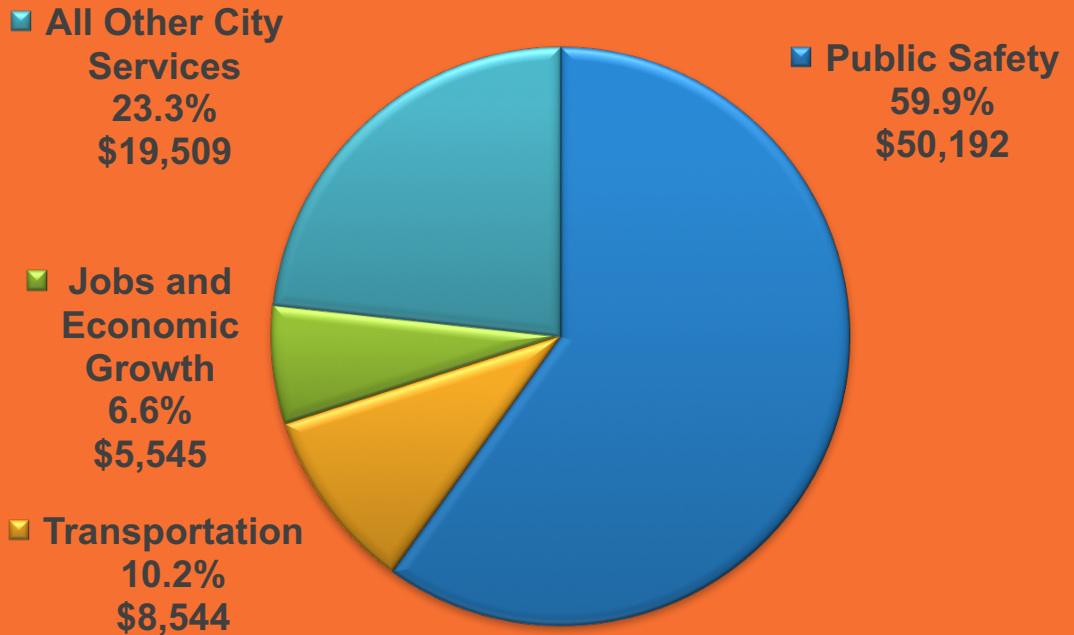
- Set aside monies for COPs grant (Year 3 of 3)
- Remaining balance of the FY17 carryover funds (source of one-time funds)
- FY19 budget is less reliant on one-time monies than the FY18 budget was

# General Fund Appropriations

As much as possible, the proposed budget attempts to address funding needs within all areas of the organization. However, consistently over the past six years, law enforcement and public safety have been the clear funding priority.

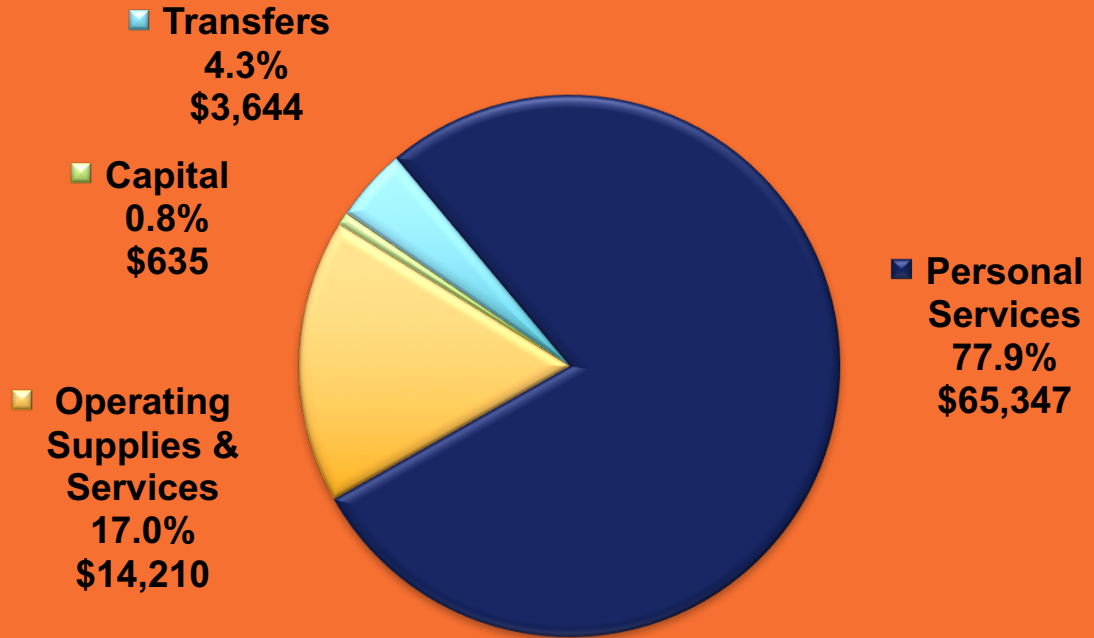
In the proposed budget for **Fiscal Year 2019**, **59.9%** of General Fund appropriations addressed public safety needs.

## FY19 General Fund Budgeted Appropriations by Function



## General Fund Appropriations

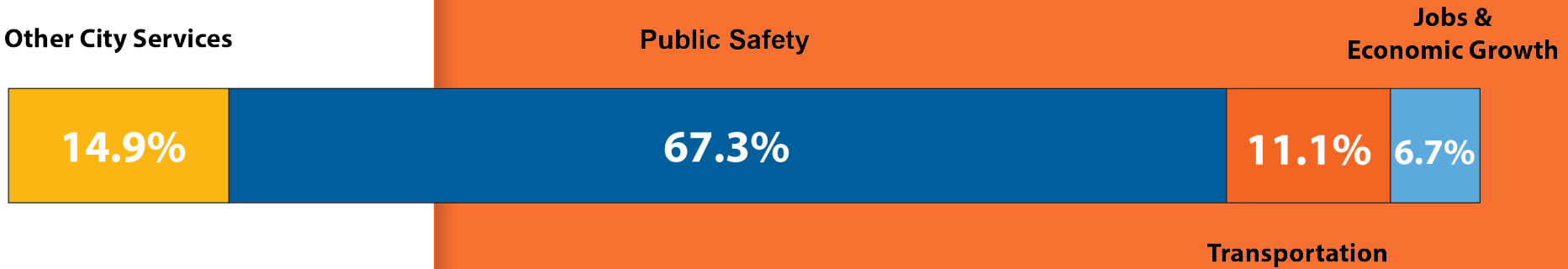
### FY19 Budget Appropriations by Operating Category General Funds \$83,836



\*All amounts represented in thousands

# General Fund Appropriations

## General Fund Employee Breakdown



PRIOR YEAR COMMITMENTS	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	FULL COST TO GENERAL FUND YEAR ENDED
	32.6%	65.2%	97.8%	2.2%			
10 Police Officers (July 2015 Start)-Available for One-Time	97,999	221,532	366,589	-			594,060
10 Police Officers (July 2015 Start)-Match	67,722	63,738	67,722	16,950			
		30.5%	63.8%	97.2%	2.8%		
11 Police Officers (August 2016 Start)-Available for One-Time		99,406	237,856	400,821	-		663,683
11 Police Officers (August 2016 Start)-Match		67,745	70,775	75,198	17,382		
2-Police Services Representatives-Hired last Quarter of FY2016		63,750					
FY2017 Budget Amendment for 2.4 positions paid from Fund Balance for FY17 and FY18		-	-	151,765			
			19.4%				Positions funded from Level Property Tax
7 Firefighters-Available for One-Time			17,040				
7 Firefighters-Match			51,594				
Total Needed Per Year	165,721	516,172	811,578	644,735	17,382	-	
Available for One-Time Expenditures	97,999	320,938	621,486	400,821	-	-	

# Budget Workshop Highlights / Takeaways

- The City Charter Section 5.8 dictates the process for City Manager to deliver a balanced budget.
- Accreditations and continued state, regional, national and international recognitions provide external indicators of quality and operational efficiency.
- The City's needs continue to far exceed available funding. Far more budget requests were received than can be funded.
- The future economic climate is uncertain and changing.
- The Level Property Tax renewal and flexibility has allowed us to address some of the Lifecycle Capital Replacement Plan, but not all.

# Budget Workshop Highlights / Takeaways

- The City is maintaining an appropriate reserve level and Moody's high bond rating and other broad fiscal indicators illustrate that the City's overall financial health is strong.
- Overall, total revenues are only projected to increase 1.3%.
- It has been difficult and we're getting squeezed on both revenue and expense sides, for example, the COPS grant approval. Addition of 2.4 positions in BDS, Planning & Development and City Clerk's Office pre-committed future new revenues.
- This year's budget is again cobbled together using some one-time funding sources, but approximately half as much was needed as was needed for the FY18 budget.

# Budget Workshop Schedule

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